Testimony of
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Mr. Chairman, thank you for the opportunity to testify as this hearing at a time that the United States is preparing to write the 2007 farm bill.

I will discuss what I believe are some of the dimensions of some farm bill issues as observed from the State of Michigan. In doing so, I believe that Michigan is in a unique position as the farm bill debate unfolds. In a very real sense, Michigan is a microcosm of the issues that you will wrestle with during the coming months and the implications of those issues may be more obvious in Michigan than in many other states.

In particular, I would like to address to two aspects of the issue of whether to eliminate the Fruit/Vegetable/Wild Rice planting restriction in the next farm bill. In particular, I would like to address (a) the potential impact on specialty crop producers and vegetable crop producers of changes in the Fruit/Vegetable/Wild Rice planting restriction (hereafter referred to as the "FAVR") contained in the 2002 farm bill, and (2) the potential impact of the continuation of the FAVR on the international trade prospects of U.S. producers that I do not believe have received sufficient recognition among the public.

I will not repeat the details of the FAVR or the role of the FAVR in the U.S.-Brazil cotton case because I am certain that the members of this Committee are familiar with those details. Instead, I would prefer to begin by examining the first issue, the potential impact on specialty crop producers of changes in the Fruit/Vegetable/Wild Rice planting restriction. I have recently completed, with my colleagues at Michigan State, Suzanne Thornsbury and Lourdes Martinez, a research project examining the potential impact of a change in the FAVR on farmers' planting decisions in Michigan.

In particular, we examined the barriers to entry and inducements to entry that would likely affect program crop farmers' decisions to enter various specialty crop markets if the FAVR is eliminated by the next farm bill. In each case, we examined the factors that inhibit, or encourage, the entry of program crop producers into these markets. Though the final version of our research paper is not yet completed, Table 1 of this document shows a range of outcomes that occurred when we examined various markets

Table 1. Probability of Entry by Program Crop Producers into FAVR Crop Production in Michigan*

Crop	**Factors Influencing Entry by Program Crop Producers** **Capital Investment** **Barrier to Entry**	**Rotation Restrictions** **Barrier to Entry**	**Market Accessibility** **Barrier to Entry**	**Labor/Mgmt Requirement** **Barrier to Entry**	**Financial Incentives** **Inducement to Enter**	**Probability of Entry by Program Crop Producers**
Dry Beans	Low	Low	Low to Med	Low	Low to Med	High
Pickling Cucumbers	High	Med to High	High	Med to High	Low	Low
Fresh Market Tomatoes	High	Med to High	High	High	Low	Low
Processed Tomatoes	Med	Med to High	Med	Low	Low	Med
Squash	Low to Med	Med to High	Med to High	Med	Low	Med to High
Blueberry	High	Low	Med	High	Low	Low

* Does not include limited volume sales through outlets such as through farmers markets or roadside stands

in Michigan. As you will note, the results of this research suggest that the likely impact of the elimination of the FAVR would vary widely among the crops covered by the FAVR.

For those specialty crops where barriers to entry are high, we conclude that the inducements to enter these markets would be too low to cause a significant number of new entrants to enter the market. On the other hand, where the barriers to entry are low—for example, where farmers can use existing equipment to produce the specialty crop – and the inducements to enter are relatively high – for example, where existing government payments are a relatively high share of the total revenue of the FAVR crop – we conclude that the likelihood that program crop producers would enter these markets is higher. For example, the likelihood that program crop producers would enter the dry bean market is much higher than the likelihood that they would enter the blueberry market. Consequently, any price or income impact on existing crop producers caused by a change in the FAVR would likely to much larger in the dry bean market than in the blueberry market.[1]

Second, I would like to discuss some of the international trade implications of the FAVR that I do not believe have been widely recognized. Much discussion of the FAVR has focused on the impact of the FAVR on the U.S.-Brazil cotton case and I will not repeat that discussion at this time. Instead, I would like to focus on another aspect of the FAVR issue that I do not believe has received sufficient public attention.

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[1] For further discussion of this research, see Suzanne Thornsbury, Lourdes Martinez, and David Schweikhardt. *Michigan: A State at the Intersection of the Debate over Full Planting Flexibility.* Department of Agricultural Economics, Michigan State University, Forthcoming.

In 2005, various Canadian corngrower associations filed a complaint against the United States claiming that corn was being dumped and subsidized into Canadian markets. In response to this complaint, the Canadian Border Security Agency imposed a tariff of $1.65 per bushel on all corn exported from the United States. [2]

A dumping/subsidy case requires that two legal issues be addressed. First, is there evidence that the imported product is being dumped or subsidized by the export country? Second, is there evidence that the dumped/subsidized exports are causing injury to producers of the product in the importing country?

On the first question – is there subsidization of U.S. corn exports entering Canada – the Canadian Border Security Agency ruled that the U.S. corn program was an actionable form of subsidy that did justify the use of countervailing tariffs. In doing so, the Agency cited the U.S.-Brazil cotton case – and particularly the FAVR – in concluding that the U.S. corn program created actionable subsidies and that tariffs would be justified.

Though the United States won this case on the second issue (was there damage to Canadian corn producers) and the tariffs on U.S. corn exports were removed, I believe that the Canadian corn case and its implications for U.S. agricultural exporters have not received adequate attention in the press or in farm bill discussions. I believe that the Canadian corn case indicates a serious future risk if the United States retains the FAVR in the next farm bill. Very simply, I believe that the Canadian corn case indicates that many buyers of U.S. program crops could use this approach to impose countervailing tariffs on U.S. products by claiming that all U.S. farm programs that rely on the FAVR

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[2] For further discussion of the U.S.-Canada corn dispute, see David B. Schweikhardt, *The Canadian-U.S. Corn Dumping Dispute: Implications For Michigan*. Department of Agricultural Economics, Michigan State University. September 30, 2005. Submitted with this testimony.

create actionable subsidies. I believe that the United States was very fortunate to win the second issue (on damage) in the Canadian corn case for some very unique reasons, and that we are running a serious risk of losing on this second issue (and therefore facing the imposition of tariffs) in future cases. Though there has been much public discussion of the risk of the United States facing future WTO challenges on crops other than cotton if the FAR is retained, I believe that the greater risk is that the U.S. could face a number of these dumping/subsidy actions on program crops if the FAVR is retained in the next farm bill. Consequently, I believe that if the FAVR is retained in the next farm bill, the United States would be running a serious risk that we could face a number of similar dumping/subsidy actions in the future that would impose additional barriers on U.S. exports, thereby resulting in the loss of export markets.

Given the potential risk created by the FAVR, it may be necessary to change or eliminate the FAVR in the next farm bill. If this is so, what policy alternatives are there to address the potential impact on specialty crop producers? In my opinion, at least three broad policy options deserve consideration.

A widely discussed option would be to provide compensation to specialty crop producers in the form of assistance for marketing programs, research programs, etc. There may be justification for such an approach. In another recently completed research project, for example, I examined the accessibility of conservation programs by specialty crop producers.[3] The results of that research suggest that specialty crop producers are at some disadvantage, compared to other agricultural producers, for participation in some

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[3] See David B. Schweikhardt, *The 2007 Farm Bill: Options and Consequences In Conservation Policy*. Department of Agricultural Economics, Michigan State University, September 2006. Submitted with this testimony.

existing conservation programs. This might suggest that compensation to specialty crop producers in the form of other farm bill programs, such as conservation, research, or marketing programs might be appropriate if the FAVR is eliminated.

A second option that has received discussion is to simply make specialty crop acreage eligible for the same benefits that program crop producers now receive – to extend to specialty crop producers an opportunity to establish a base acreage comparable to that of program crop producers and become eligible for payments identical to program crop producers. In doing so, there would be no need for new programs to be established – for example, this option would not require the creation of a dry bean program. Dry bean producers would simply be eligible to receive corn or soybean direct and countercyclical payments in a same manner as their neighbors who now produce program crops. In return, program crop producers would be permitted to flex their acreage into dry bean production if they decided that was the most profitable opportunity for them. In each case, equity issues could be addressed, the need for the FAVR would be eliminated, and at least source of the current international trade tensions would be reduced since there would no longer be restrictions on planting by program participants.

A third option that must be mentioned is simply a mix of these two options. This alternative would recognize that there is no such thing as a "specialty crop industry" in the United States. Instead, there are dozens of individual industries – literally from apples to zucchini – each with its own unique marketing and production institutions. To expect a single policy alternative to fit all of these industries is probably not realistic. Though I realize the complexity of doing so, perhaps a mix of policies – with the one industry taking the second option another taking the first option – would be most appropriate.

I will be happy to address any questions the Committee might have. Thank you for the opportunity to participate in this hearing.